

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE SERIES 5000 CHANNEL SERVICE )	
(TELPAK) TARIFF FILING OF SOUTH )	CASE NO. 8389
CENTRAL BELL TELEPHONE COMPANY )	

O R D E R

Introduction

On November 11, 1981, South Central Bell Telephone Company ("South Central") filed a tariff with the Commission to restrict and eventually discontinue the availability of a private line service known as Telpak. On November 25, 1981, the tariff was suspended for investigation and hearing. On February 17, 1982, a hearing was held. The Commonwealth of Kentucky, Finance and Administration Cabinet, ("Finance") and the United States Department of Defense, Defense Communications Agency, on behalf of all Federal Executive Agencies, ("FEA") requested and were granted leave to intervene. On March 11, 1982, and thereafter, Finance filed requests for another hearing in this matter.

Background

Local and general exchange service is dedicated to public use and accessible by all exchange service subscribers. Private line service is dedicated to the use of an individual subscriber. Thus, private line service is neither directly connected to the exchange service network nor directly accessible by exchange service subscribers.

Private line service is furnished between specific subscriber locations for voice communications, teletypewriter service, data transmission, remote metering, special signaling, and other purposes.

Telpak is equivalent to private line Series 1000 and Series 2000 Channel Service leased in base capacity arrangements as follows:

Telpak A: a base capacity of 12 equivalent voice grade channels.

Telpak B: a base capacity of 24 equivalent voice grade channels.

Telpak C: a base capacity of 60 equivalent voice grade channels.

Telpak D: a base capacity of 240 equivalent voice grade channels.

Telpak is not a unique private line service. It is a private line service pricing arrangement. Telpak subscribers lease base capacity instead of individual channels and receive the benefit of a rate discount.

The Telpak rate discount is variable, depending on the amount of base capacity, the network configuration, and the type of channels in service. The rate discount is substantial and increases with distance. Furthermore, it represents lost revenue that otherwise would be available to reduce the revenue burden on other categories of service. Telpak terminal rates were last increased in 1975. <sup>1/</sup> Telpak base capacity rates were last increased in

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<sup>1/</sup> Case No. 6232, Order dated December 31, 1975.

1977. <sup>2/</sup> The Commission notes that Telpak has enjoyed rate stability unlike that of any other service offered by South Central.

South Central's tariff proposal would restrict the availability of Telpak by "grandfathering" the service to existing customers and prohibiting the expansion of Telpak base capacity. Moreover, Telpak would be discontinued as a service option 1 year from the effective date of the tariff filing.

#### Economic Impact

FEA and Finance contended that to "grandfather" and eventually discontinue Telpak will result in increased telecommunications expense. FEA estimated its annual increase would be approximately \$74,125 and argued that the Commission should not approve the tariff without South Central furnishing adequate cost support. <sup>3/</sup> Finance estimated its annual increase would be between \$3,438,001 and \$6,063,786 and argued that South Central underestimated the economic impact of the tariff. <sup>4/</sup>

At the hearing on February 17, 1982, South Central presented billing information that was disputed by Finance. The billing information was based on a Telpak sample extracted from service records during parts of June and July 1981. <sup>5/</sup> After the hearing, the Commission requested updated billing data for state government and other information. The subsequent billing information filed

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<sup>2/</sup> Case No. 6659, Order dated March 26, 1977.

<sup>3/</sup> Motion for Leave to Intervene, page 2.

<sup>4/</sup> Sims Exhibit 1.

<sup>5/</sup> Response to Order for additional information, Item 9.

was based on service records as of March 1, 1982. The information indicated that the total annual economic impact of the tariff proposal would be approximately \$1,673,028. <sup>6/</sup> The information further indicated that the economic impact to state government would be approximately \$1,566,408, <sup>7/</sup> rather than \$1,448,220 <sup>8/</sup> as originally estimated by South Central.

#### Cost Study

On the basis of proprietary cost information furnished in the case, the Commission has determined that the average Telpak channel service installation results in a net revenue loss to South Central while the average private line service channel installation results in a net revenue contribution.

Although Telpak non-recurring charges were not a major issue in the case, Telpak recurring charges were an issue. On the basis of proprietary cost information furnished in the case, the Commission has determined that Telpak annual recurring cost compared to total annual revenue results in a net revenue deficit. This deficit represents revenues that must be generated by other categories of service.

#### Opinions and Findings

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

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- <sup>6/</sup> Response to Order for additional information, Item 12, and Ebbert Exhibit 3.
- <sup>7/</sup> Ebbert Exhibit 1.
- <sup>8/</sup> Response to Order for additional information, Item 4, Attachment 1.

1. The motion by Finance for another hearing should be denied as a complete record has been established in this case.

2. Telpak rates and charges are not compensatory. The cost information filed by South Central indicates that the price structure results in a net revenue deficit to the company. Therefore, the continuance of Telpak is not in the public interest and should be restricted and discontinued.

3. In order to allow sufficient time for subscribers to obtain alternative service, Telpak should be "grandfathered" for a 2-year period during which no new customers or expansion of base capacity will be permitted. Following this period, the tariff should be discontinued.

#### Orders

IT IS THEREFORE ORDERED that Telpak shall be "grandfathered" effective August 1, 1982. Telpak shall not be available to new subscribers, and the expansion of base capacity shall not be permitted.

IT IS FURTHER ORDERED that Telpak shall be discontinued, effective August 1, 1984.

IT IS FURTHER ORDERED that within 20 days from the date of this Order, South Central shall file revised tariff sheets with the Commission implementing the regulations approved herein.

Done at Frankfort, Kentucky, this 6th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs  
Chairman

Katherine Randall  
Vice Chairman

Len Carver  
Commissioner

ATTEST:

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Secretary